

Fast Facts About the Pension Protection Act of 2006 August 30, 2006

- The United States Congress recently passed the Pension Protection Act of 2006 (PPA), which was signed into law by President George Bush August 17, 2006.
- A majority of the PPA's provisions apply to private sector pension plans governed by the Employee Retirement Income Security Act (ERISA). However, there are a few provisions that may affect some members of the South Carolina Retirement Systems.
- The most significant provision for Retirement Systems members provides for the pre-tax treatment of qualified health and long-term care insurance premiums. The PPA defines this as premiums for coverage for retired public safety officers, their spouses, and their dependents, by an accident or health insurance plan, or qualified long term care insurance contract.
- More specifically, the PPA allows for pre-tax distributions of up to \$3,000 from public pension plans for use in purchasing retiree health or long term care insurance by public safety retirees.
- To be eligible for this pre-tax treatment, a public safety retiree's pension plan must deduct the health and long term care insurance premiums from the retiree's annuity and pay them directly to the insurance provider.
- Although the issue may seem simple, there are a number of unanswered questions regarding the application of the PPA. Definitions within the new law, including the Internal Revenue's (IRS) definition of a public safety officer, are very complex and require clarification before implementation is possible.
- The Retirement Systems considers the pre-tax provisions of the PPA to be a tremendous step forward in ending the long-standing inequity of active employees being allowed to use pre-tax dollars to pay health insurance premiums and health care costs and retirees not being able to do so.
- The Retirement Systems is committed to making sure that members may take advantage of any tax savings for which they are eligible.
- The Retirement Systems is in discussions with national pension associations and the IRS to determine what documents will be required to determine eligibility for the pre-tax treatment of premiums and to implement the law.

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- Another PPA provision allows the 10 percent withdrawal penalty to be waived for public safety members over age 50 and military reservists and national guardsmen who are called to active duty for at least 180 days.
- The director of the Retirement Systems will be meeting with IRS staff in September 2006 to obtain further elucidation of the provisions of the PPA.
- The Retirement Systems will notify members as soon as possible once the complexities of the PPA have been worked through.
- For more details or updates concerning this issue, please contact Customer Services at (800) 868-9002, (803) 737-6800, or cs@retirement.sc.gov, or visit our Web site at www.retirement.sc.gov.
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